

ELCO LIMITED

Annual Report
Convenience Translation into US Dollars

2015

ELCO LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2015

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Auditors' Report to the Shareholders of Elco Ltd.

Regarding the Audit of Components of Internal Control over Financial Reporting

Pursuant to Section 9b(c) to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the components of the internal control over financial reporting of Elco Ltd. and its subsidiaries (hereinafter, collectively- the Company) as of December 31, 2015. These control components were determined as explained in the following paragraph. The Company's Board of Directors and management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the components of the internal control over financial reporting included in the accompanying periodic report for said date. Our responsibility is to express an opinion on the Company's components of internal control over financial reporting based on our audits.

We did not audit the components of the internal control over financial reporting of a subsidiary company that has been consolidated, the assets and revenues of which that have been included in the consolidation constitute approximately 17% and approximately 2% respectively of the relevant amounts in the consolidated financial statements as of December 31, 2015 and for the year ended on that date. The effectiveness of the components of the internal control over financial reporting of that company were audited by other auditors whose reports have been furnished to us and our opinion, is so far as it related to the effectiveness of the components of the internal control over financial reporting of that company is based on the reports of the other auditors.

The components of internal control over financial reporting that have been audited were determined in conformity with Auditing standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting" and the amendments thereto, ("Auditing Standard 104"). These components consist of: (1) entity level controls, including financial reporting preparation and close process controls and information technology general controls, (2) controls over the recording of income from works under construction contracts, (3) controls over the inventory of real estate and income-generating real estate, (4) controls over income from rentals and management fees from income-generating real estate, (5) controls over loans to finance income-generating real estate and (6) controls over inventory and the purchase of inventory (hereinafter, collectively- the audited control components).

We conducted our audit in accordance with Auditing Standard 104. That standard requires that we plan and perform the audit to identify the audited control components and obtain reasonable assurance about whether these control components have been effectively maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists regarding the audited control components and testing and evaluating the design and operating effectiveness of the audited control components based on the assessed risk. Our audit of these control components also included performing such other procedures as we considered necessary in the circumstances. Our audit only addressed the audited control components, as opposed to internal control over all the material processes in connection with financial reporting and therefore, our opinion addresses solely the audited control components. Moreover, our audit did not address any reciprocal effects between the audited control components and unaudited ones and accordingly, our opinion does not take into account any such possible effects. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion within the context described above.

Because of its inherent limitations, internal control over financial reporting as a whole and specifically the components therein, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in circumstances, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, based on our audit and the reports of other auditors, the Company has effectively maintained, in all material aspects, the audited control components as of December 31, 2015.

We have also audited the Company's consolidated financial statements as of December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015, in accordance with generally accepted auditing standards in Israel and our report, dated March 28, 2016, included an unqualified opinion on those financial statements, based on our audit and the reports of the other auditors.

AUDITORS' REPORT TO THE SHAREHOLDERS OF ELCO LIMITED

We have audited the accompanying consolidated statements of financial position of Elco Ltd. (hereinafter- the Company) as of December 31, 2015 and 2014 and the consolidated statements of profit or loss, of comprehensive income, of changes in equity and of cash flows for each of the three years in the period ended on December 31, 2015. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, whose assets constitute approximately 19% and approximately 28% of the total consolidated assets as of December 31, 2015 and 2014, respectively, and whose revenues constitute approximately 5%, approximately 4% and approximately 5% of the total consolidated revenues for the years ended December 31, 2015, 2014 and 2013, respectively. Furthermore, we did not audit the financial statements of certain companies accounted for at equity, the investments in which amounted to approximately US\$ 66,621 thousand and approximately US\$ 69,781 thousand as of December 31, 2015 and 2014, respectively and the Company's shares of their profits (losses) amounted to approximately US\$ 2,294 thousand, approximately US\$ 2,243 thousand and approximately US\$ (878) thousand for the years ended December 31, 2015, 2014 and 2013, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

The attached financial statements in US Dollars are a convenience translation of the statements as prepared in New Israeli Shekels at the rate of exchange of the Shekel into US Dollars prevailing on December 31, 2015 (see Note 2 to the financial statements).

In our opinion, based on our audit and on the reports of the other auditors, the abovementioned financial statements present fairly, in all material respects, the financial position of the Company and its consolidated companies as of December 31, 2015 and 2014, and the results of their operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2015, and this in accordance with International Financial Reporting Standards (IFRS) and the provisions in accordance with the Securities Regulations (Annual Financial Statements) - 2010.

We have also audited components of internal control over financial reporting of the Company as of December 31, 2015, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting" and our report, dated March 28, 2016, included an unqualified opinion on the effective maintenance of those components.

KOST FORER GABBAY & KASIERER
Certified Public Accountants

March 28, 2016

ELCO LIMITED**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Current assets		
Cash and cash equivalents	197,186	206,356
Short-term investments	32,017	24,050
Trade receivables	279,730	249,229
Other receivables	240,670	216,430
Inventory, inventory of real estate and residential apartments	237,742	271,719
Assets held for sale	<u>247,046</u>	<u>187,283</u>
	<u>1,234,391</u>	<u>1,155,067</u>
Non-current assets		
Long-term receivables	20,430	30,046
Receivables for concession arrangement for the provision of services	27,994	26,822
Investments in entities accounted for at equity	293,385	569,393
Long-term inventory of real estate	16,002	19,071
Income-generating assets	122,663	162,509
Fixed Assets	76,145	72,260
Goodwill and other intangible assets	181,070	178,479
Deferred taxes	<u>5,091</u>	<u>14,705</u>
	<u>742,780</u>	<u>1,073,285</u>
	<u>1,977,171</u>	<u>2,228,352</u>
	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

March 28, 2016

Date of the approval of the financial statements

ELCO LIMITED**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)

	December 31	
	<u>2015</u>	<u>2014</u>
Current Liabilities		
Credit from banks and others	90,683	134,136
Bonds - current maturities	114,611	111,387
Suppliers and providers of services	372,322	355,596
Other payables	287,477	283,387
Liabilities in respect of assets held for sale	<u>32,218</u>	<u>135,969</u>
	<u>897,311</u>	<u>1,020,475</u>
Non-Current Liabilities		
Liabilities to banks and financial institutions	178,111	206,310
Bonds	403,537	437,265
Other liabilities	57,729	49,634
Employee benefit liabilities, net	13,823	11,874
Deferred taxes	<u>41,804</u>	<u>92,065</u>
	<u>695,004</u>	<u>797,148</u>
Equity		
Equity attributable to shareholders in the company	184,430	199,512
Non-controlling interests	<u>200,426</u>	<u>211,217</u>
Total equity	<u>384,856</u>	<u>410,729</u>
	<u>1,977,171</u>	<u>2,228,352</u>
	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

E. Vessely
Chief Financial Officer

M. Salkind
Joint Managing Director

M. Friedman
Chairman of the Board of
Directors

ELCO LIMITED**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS**
CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)

	For The year ended December 31		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Continuing operations			
Revenues, net	1,923,315	1,722,972	1,696,335
Adjustment of the fair value and the results of the disposal of income-generating assets, net	(2,046)	(15,243)	3,063
Group's share of the profits of entities accounted for at equity, net	18,837	4,351	(3,627)
Other income	<u>2,592</u>	<u>3,143</u>	<u>17,750</u>
Total	<u>1,942,698</u>	<u>1,715,223</u>	<u>1,713,521</u>
Cost of producing revenues	(1,629,348)	(1,437,573)	(1,380,899)
Selling and marketing expenses	(172,271)	(182,852)	(176,837)
Administrative and general expenses	(65,411)	(56,560)	(56,262)
Other expenses	(4,333)	(22,711)	(2,274)
Financial income	11,602	9,185	13,113
Financing expenses	<u>(44,771)</u>	<u>(58,789)</u>	<u>(87,235)</u>
Total	<u>(1,904,532)</u>	<u>(1,749,300)</u>	<u>(1,690,394)</u>
Income (loss) before taxes on income	38,166	(34,077)	23,127
Taxes on income	<u>(10,520)</u>	<u>(7,787)</u>	<u>(16,227)</u>
Income (loss) from continuing operations	27,646	(41,864)	6,900
Discontinued operations			
Operating income (loss) from discontinued operations	28	16,451	(3,610)
Loss from the disposal of discontinued operations	<u>-</u>	<u>-</u>	<u>(18,827)</u>
Net income (loss)	<u>27,674</u>	<u>(25,413)</u>	<u>(15,537)</u>
Attributable to:			
Shareholders in the company	10,361	(22,551)	(31,581)
Non-controlling interests	<u>17,313</u>	<u>(2,862)</u>	<u>16,044</u>
	<u>27,674</u>	<u>(25,413)</u>	<u>(15,537)</u>
Earnings (loss) per share - attributable to the Equity holders of the Company:			
Basic - Earnings (loss)			
From continuing operations	0.38	(1.36)	(0.07)
From discontinued operations	<u>-</u>	<u>0.54</u>	<u>(1.11)</u>
	<u>0.38</u>	<u>(0.82)</u>	<u>(1.18)</u>
	=====	=====	=====
Fully diluted - Earnings (loss)			
From continuing operations	0.37	(1.36)	(0.08)
From discontinued operations	<u>-</u>	<u>0.54</u>	<u>(1.11)</u>
	<u>0.37</u>	<u>(0.82)</u>	<u>(1.19)</u>
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The accompanying notes are an integral part of the consolidated financial statements.

ELCO LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)

	For the year ended December 31		
	2015	2014	2016
Net income (loss)	<u>27,674</u>	<u>(25,413)</u>	<u>(15,537)</u>
Other comprehensive income (loss) (after tax effects):			
Amounts that will be classified or reclassified to profit or loss when specific conditions are met:			
Adjustments deriving from the translation of the financial statements of foreign operations	(36,277)	(4,221)	(48,538)
Gain (loss) on hedging transactions	<u>(3,260)</u>	<u>3,458</u>	<u>1,460</u>
	<u>(39,537)</u>	<u>(763)</u>	<u>(47,078)</u>
Amounts that will not be reclassified to profit or loss in subsequent periods:			
Gain (loss) on financial assets that are measured at fair value through other comprehensive income	(544)	29	774
Gain (loss) from the re-measurement of defined benefit plans	<u>(884)</u>	<u>1,166</u>	<u>322</u>
	<u>(1,428)</u>	<u>1,195</u>	<u>1,096</u>
Total other comprehensive income (loss)	<u>(40,965)</u>	<u>432</u>	<u>(45,982)</u>
Total comprehensive loss	<u>(13,291)</u>	<u>(24,981)</u>	<u>(61,519)</u>
Comprehensive loss attributable to:			
Shareholders in the company	(10,816)	(18,080)	(60,123)
Non-controlling interests	<u>(2,475)</u>	<u>(6,901)</u>	<u>(1,396)</u>
	<u>(13,291)</u>	<u>(24,981)</u>	<u>(61,519)</u>

The accompanying notes are an integral part of the consolidated financial statements.

ELCO LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)

	Attributable to equity holders of the company												Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Retained earnings	Capital reserve on transactions with controlling interests	Capital reserve on financial assets at fair value through other comprehensive income	Capital reserve on hedging transactions	Capital reserve on the re-measurement of defined benefit plans	Adjustments deriving from the translation of financial Statements	Capital reserve on share-based payment	Revaluation reserve	Total		
Balance as of January 1, 2015	29,215	14,138	(47,312)	293,725	123	(46,757)	4,870	(308)	(63,479)	6,599	8,698	199,512	211,217	410,729
Changes following the initial implementation of IFRS 15	-	-	-	949	-	-	-	-	-	-	-	949	774	1,723
Balance as of January 1, 2015 following the initial implementation of IFRS 15	29,215	14,138	(47,312)	294,674	123	(46,757)	4,870	(308)	(63,479)	6,599	8,698	200,461	211,991	412,452
Net profit	-	-	-	10,361	-	-	-	-	-	-	-	10,361	17,313	27,674
Other comprehensive income (loss):														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	(18,427)	-	-	(18,427)	(17,850)	(36,277)
Loss on the re-measurement of defined benefit plans	-	-	-	-	-	-	-	(522)	-	-	-	(522)	(362)	(884)
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	(318)	-	-	-	-	-	(318)	(226)	(544)
Loss on hedging transactions	-	-	-	-	-	-	(1,910)	-	-	-	-	(1,910)	(1,350)	(3,260)
Total other comprehensive loss	-	-	-	-	-	(318)	(1,910)	(522)	(18,427)	-	-	(21,177)	(19,788)	(40,965)
Total comprehensive income (loss)	-	-	-	10,361	-	(318)	(1,910)	(522)	(18,427)	-	-	(10,816)	(2,475)	(13,291)
Cost of share-based payment	-	-	-	-	-	-	-	-	-	719	-	719	2,169	2,888
Dividend to shareholders in the company	-	-	-	(5,180)	-	-	-	-	-	-	-	(5,180)	-	(5,180)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(12,153)	(12,153)
Purchase of treasury shares in subsidiary companies	-	-	-	(869)	-	-	-	-	115	-	-	(754)	(33)	(787)
Initially consolidated company	-	-	-	-	-	-	-	-	-	-	-	-	343	343
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	584	584
As of December 31, 2015	29,215	14,138	(47,312)	298,986	123	(47,075)	2,960	(830)	(81,791)	7,318	8,698	184,430	200,426	384,856

The accompanying notes are an integral part of the consolidated financial statements.

ELCO LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)

	Attributable to equity holders of the company												Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Retained earnings	Capital reserve on transactions with controlling interests	Capital reserve on financial assets at fair value through other comprehensive income	Capital reserve on hedging transactions	Capital reserve on the re-measurement of defined benefit plans	Adjustments deriving from the translation of financial Statements	Capital reserve on share-based payment	Revaluation reserve	Total		
Balance as of January 1, 2014	29,215	14,138	(46,030)	322,882	123	(46,773)	2,825	(925)	(65,272)	5,661	8,698	224,542	262,600	487,142
Loss	-	-	-	(22,551)	-	-	-	-	-	-	-	(22,551)	(2,862)	(25,413)
Other comprehensive income (loss):														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	1,793	-	-	1,793	(6,014)	(4,221)
Gain on the re-measurement of defined benefit plans	-	-	-	-	-	-	-	617	-	-	-	617	549	1,166
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	16	-	-	-	-	-	16	13	29
Gain on hedging transactions	-	-	-	-	-	-	2,045	-	-	-	-	2,045	1,413	3,458
Total other comprehensive income (loss)	-	-	-	-	-	16	2,045	617	1,793	-	-	4,471	(4,039)	432
Total comprehensive income (loss)	-	-	-	(22,551)	-	16	2,045	617	1,793	-	-	(18,080)	(6,901)	(24,981)
Cost of share-based payment	-	-	-	-	-	-	-	-	-	938	-	938	637	1,575
Loan for the purchase of shares	-	-	(1,282)	-	-	-	-	-	-	-	-	(1,282)	-	(1,282)
Dividend to shareholders in the company	-	-	-	(6,407)	-	-	-	-	-	-	-	(6,407)	-	(6,407)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(40,709)	(40,709)
Purchase of treasury shares in subsidiary companies	-	-	-	(199)	-	-	-	-	-	-	-	(199)	(2,839)	(3,038)
Exit from consolidation of consolidated company	-	-	-	-	-	-	-	-	-	-	-	-	(2,022)	(2,022)
Initially consolidated company	-	-	-	-	-	-	-	-	-	-	-	-	417	417
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	34	34
As of December 31, 2014	29,215	14,138	(47,312)	293,725	123	(46,757)	4,870	(308)	(63,479)	6,599	8,698	199,512	211,217	410,729

The accompanying notes are an integral part of the consolidated financial statements.

ELCO LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)

	Attributable to equity holders of the company													Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Retained earnings	Capital reserve on transactions with controlling interests	Capital reserve on financial assets at fair value through other comprehensive income	Capital reserve on hedging transactions	Capital reserve on the re-measurement of defined benefit plans	Adjustments deriving from the translation of financial Statements	Capital reserve on share-based payment	Revaluation reserve	Total			
Balance as of January 1, 2013	29,215	14,138	(57,506)	340,315	123	(47,182)	1,997	(1,192)	(36,611)	5,618	14,898	263,813	242,167	505,980	
Net profit (loss)	-	-	-	(31,581)	-	-	-	-	-	-	-	(31,581)	16,044	(15,537)	
Other comprehensive income (loss):															
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	(29,979)	-	-	(29,979)	(18,559)	(48,538)	
Gain on the re-measurement of defined benefit plans	-	-	-	-	-	-	-	166	-	-	-	166	156	322	
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	409	-	-	-	-	-	409	365	774	
Gain on hedging transactions	-	-	-	-	-	-	862	-	-	-	-	862	598	1,460	
Total other comprehensive income (loss)	-	-	-	-	-	409	862	166	(29,979)	-	-	(28,542)	(17,440)	(45,982)	
Total comprehensive income (loss)	-	-	-	(31,581)	-	409	862	166	(29,979)	-	-	(60,123)	(1,396)	(61,519)	
Cost of share-based payment	-	-	-	-	-	-	-	-	-	43	-	43	1,241	1,284	
Disposal of treasury shares	-	-	11,476	-	-	-	-	-	-	-	-	11,476	-	11,476	
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(11,096)	(11,096)	
Disposal of formerly owner occupied income-generating asset	-	-	-	6,200	-	-	-	-	-	-	(6,200)	-	-	-	
Sale of shares in consolidated company	-	-	-	7,978	-	-	(34)	101	1,318	-	-	9,363	17,507	26,870	
Purchase of treasury shares in subsidiary companies	-	-	-	(30)	-	-	-	-	-	-	-	(30)	(28)	(58)	
Exit from consolidation of consolidated company	-	-	-	-	-	-	-	-	-	-	-	-	(1,286)	(1,286)	
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	15,491	15,491	
At December 31, 2013	29,215	14,138	(46,030)	322,882	123	(46,773)	2,825	(925)	(65,272)	5,661	8,698	224,542	262,600	487,142	

The accompanying notes are an integral part of the consolidated financial statements.

ELCO LIMITED**CONSOLIDATED CASH FLOW STATEMENTS
CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)**

	For The year ended December 31		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:			
Net income (loss)	27,674	(25,413)	(15,537)
Adjustments required in order to present the cash flows from operating activities (Appendix A')	<u>31,442</u>	<u>86,598</u>	<u>61,073</u>
Net cash generated by operating activities *)	<u>59,116</u>	<u>61,185</u>	<u>45,536</u>
Cash flows from investment activities:			
Acquisition of fixed assets, intangible assets and operations	(24,228)	(24,958)	(43,089)
Acquisition and construction of income generating assets	(10,583)	(7,613)	(18,092)
Newly consolidated subsidiaries and activities (Appendix B')	(6,106)	(2,770)	(2,080)
Exit from consolidation of previously consolidated companies (Appendix C')	-	2,646	(366)
Proceeds from the disposal of discontinued operations (Appendix D)	-	-	32,082
Investment in shares of affiliated and other companies	(21,091)	(26,820)	(26,268)
(Purchase) sale of short-term investments, net	(5,595)	30,050	(23,580)
Consideration from the disposal of fixed and income-generating assets and investments	102,718	166,374	67,746
Collection (extension) of long-term loans and deposits	<u>1,322</u>	<u>1,682</u>	<u>(3,958)</u>
Net cash generated (absorbed) by investment activities *)	<u>36,437</u>	<u>138,591</u>	<u>(17,605)</u>
Cash flows from financing activities:			
Dividend paid to shareholders in the company	(5,180)	(6,407)	-
Dividend paid to non-controlling interests	(12,153)	(40,709)	(11,096)
Issuance of bonds	85,905	175,817	201,211
Consideration from the disposal of shares in consolidated companies	-	-	30,349
Repayment of long-term liabilities	(220,426)	(348,906)	(292,852)
Receipt of long-term liabilities	73,936	120,061	42,691
Short-term bank credit, net	(25,662)	(113,732)	25,934
Issuance of shares to non-controlling interests in consolidated companies	585	34	13,725
Disposal (purchase) of treasury shares in the Company and in consolidated companies	<u>(786)</u>	<u>(4,320)</u>	<u>11,418</u>
Net cash generated (absorbed) by financing activities *)	<u>(103,781)</u>	<u>(218,162)</u>	<u>21,380</u>
Translation differences in respect of cash and cash equivalent balances	<u>(942)</u>	<u>2,596</u>	<u>(5,740)</u>
Increase (decrease) in cash and cash equivalents	(9,170)	(15,790)	43,571
Balance of cash and cash equivalents at the beginning of the year	<u>206,356</u>	<u>222,146</u>	<u>178,575</u>
Balance of cash and cash equivalents at the end of the year	<u>197,186</u>	<u>206,356</u>	<u>222,146</u>

*) Includes cash in respect of discontinued activities.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOWS STATEMENTS
CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)

Appendix A' – Adjustments to present the cash flows from operating activities

	For The year ended December 31		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Income and expenses not involving cash flows:			
The Group's share of the profits of companies accounted for at equity, net	(4,680)	(29,660)	(9,505)
Dividends and interest received from companies accounted for at equity	22,391	22,167	25,954
Adjustments of the fair value and the results of the disposal of income-generating assets, net	2,046	15,243	(3,063)
Loss on the disposal of discontinued operations	-	-	18,826
Depreciation and amortization	22,751	28,550	21,249
Deferred taxes, net	(12,517)	4,367	13,489
Increase (decrease) in employee benefit liabilities	608	760	(880)
Capital loss (gain) on the sale of fixed assets and other investments	(1,912)	5,495	(17,305)
Gain on the re-measurement of an investment in an initially consolidated investee company	(796)	-	-
Revaluation of long-term receivables and liabilities, net	(1,722)	(7,953)	18,841
Increase in value of short-term investments	(486)	(102)	(64)
Gain on the disposal of investments in consolidated companies (Appendix C)	-	-	(445)
Cost of share-based payments	2,888	1,575	1,284
Changes in asset and liability items:			
Decrease (increase) in inventory and inventory of real estate	10,976	12,098	(24,525)
Decrease (increase) in trade receivables	(11,206)	(6,784)	20,045
Increase in other accounts receivable	(30,424)	(41,561)	(12,290)
Increase in suppliers and providers of services	6,301	41,914	14,071
Increase (decrease) in other accounts payable	<u>27,224</u>	<u>40,489</u>	<u>(4,609)</u>
	31,442	86,598	61,073
	=====	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

(00ELCO LIMITED)**CONSOLIDATED CASH FLOWS STATEMENTS
CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)****Appendix B' - Investment in newly consolidated subsidiaries and activities**

	For The year ended December 31		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Working capital, net (except cash)	(3,503)	(10)	(1,315)
Investment in marketable securities and deposits in trust	(574)	-	-
Fixed assets	(1,121)	(40)	(706)
Investment in entities accounted for at equity	342	1,367	-
Intangible assets	(6,636)	(2,900)	(2,527)
Goodwill	(5,551)	(2,146)	-
Deferred taxes	2,768	190	240
Non-current liabilities	1,872	352	691
Payables for conditional consideration	2,214	-	1,537
Liability for put option for non-controlling interests	2,944	-	-
Non-controlling interests	343	417	-
Gain as a result of an increase to control	<u>796</u>	<u>-</u>	<u>-</u>
	<u>(6,106)</u>	<u>(2,770)</u>	<u>(2,080)</u>

Appendix C' - Exit from consolidation of previously consolidated companies

	For The year ended December 31		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Working capital, net (except cash)	-	(598)	(1,662)
Long-terms receivables	-	1,515	-
Income-generating assets	-	30,963	-
Investment in a company accounted for at equity	-	-	(2,530)
Fixed assets and other non-current assets	-	-	5,546
Non-current liabilities	-	(21,101)	(250)
Deferred taxes	-	(6,111)	(630)
Non-controlling interests	-	(2,022)	(1,285)
Gain on the disposal of investments	<u>-</u>	<u>-</u>	<u>445</u>
	<u>-</u>	<u>2,646</u>	<u>(366)</u>

The accompanying notes are an integral part of the consolidated financial statements

ELCO LIMITED**CONSOLIDATED CASH FLOWS STATEMENTS
CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)**

Appendix D' - Proceeds from the disposal of discontinued operations

	For The year ended December 31		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Working capital, net (except for cash and cash equivalents)	-	-	14,496
Fixed assets, net	-	-	2,788
Intangible assets, net	-	-	1,584
Deferred taxes	-	-	126
Non-current liabilities	-	-	(892)
Gain on the sale of consolidated companies	<u>-</u>	<u>-</u>	<u>13,980</u>
	<u>-</u>	<u>-</u>	<u>32,082</u>

Appendix E' - Additional information on cash flows

	For The year ended December 31		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Cash paid during the year for:			
Interest	39,248	52,768	60,500
Income tax	9,317	22,125	13,139
Cash received during the year for:			
Interest	2,778	3,067	2,606
Income tax	3,888	3,524	1,596

The accompanying notes are an integral part of the consolidated financial statements

Note 1 - General description of the Company and its activities

Elco Ltd. (hereinafter - The Company), was incorporated in Israel in the year 1949 and its shares are traded on the Stock Exchange in Israel.

On February 17, 2014, the Company changed its name from Elco Holdings Ltd. to Elco Ltd..

As of the date of the financial statements, the Group operates in Israel and abroad in three segments, in accordance with its investee companies, as follow:

- Electra** - Operates in the field of the production of and provision of services for buildings and infrastructure in Israel and abroad, including the installation and servicing of central air-conditioning systems, elevators, sanitation, infrastructure, electricity and plumbing, construction, the supervision and management of real estate, entrepreneurial real estate, management and maintenance of assets and of income-generating real estate asset.

- Electra Consumer Products** - Operates in Israel in the importation and marketing of electrical consumer products, including air-conditioners, cellular telephones, products in the Do-It-Yourself field, inter alia, through the marketing chains that it owns and in the manufacture of air-conditioners and the marketing of domestic air-conditioning systems across the globe.

- Electra Real Estate** - Operates in the field of income-generating and entrepreneurial real estate, both in Israel and abroad.
In January 2016, Electra Real Estate decided upon a strategic change and commenced activities in the housing complexes market in the United States.

Note 2 - Convenience translation

The attached Financial Statements in US Dollars are a translation of the statements as prepared in New Israeli Shekels ("NIS" or "Shekel") at the rate of exchange of the Shekel to the US Dollar prevailing on December 31, 2015 (NIS 3.902 = US\$ 1).

It should be noted that the New Israeli Shekel amounts, on the basis of which the convenience translation figures were prepared, do not necessarily represent the current cost amounts of the various elements within the financial statements and, also, that it should not be construed from the translation into US Dollar figures that the Israeli currency amounts actually represent, or could be converted into Dollars. These financial statements have been prepared for the convenience of the reader. In the event of any discrepancy between the contents of this translation and the Hebrew original, the Hebrew original prevails.